

STATE OF WASHINGTON
GAMBLING COMMISSION

In the Matter of the Suspension or Revocation of)
the License to Conduct Gambling Activities of:) NO. CR 2012-00800
)
) **AMENDED**
) **NOTICE OF ADMINISTRATIVE**
Gameworks,) **CHARGES AND OPPORTUNITY**
Seattle, Washington,) **FOR AN ADJUDICATIVE**
) **PROCEEDING**
) *(Amendments appear in italics and*
Licensee.) *strikeouts)*
_____)

I.

The Washington State Gambling Commission issued Gameworks license number 53-21182, authorizing Commercial Amusement Game activity in Seattle. The license expires on May 19, 2013, and was issued subject to the licensee's compliance with state gambling laws and rules.

II.

Rick Day, Director of the Washington State Gambling Commission, charges the licensee with the following violations of the Washington State Gambling Act, 9.46 RCW, and WAC Title 230:

SUMMARY:

From May 2011 to May 24, 2012, Gameworks Entertainment, LLC operated Gameworks under a void license issued to the prior owners, Sega Gameworks USA, Inc. After the license expiration date, the licensee operated commercial amusement games from at least May 25, 2012, through July 20, 2012, without a valid gambling license, despite repeated warnings from Commission staff.

FACTS:

Operating With an Expired License

1) On June 15, 2012, a Gambling Commission Special Agent (agent) was notified through an automated system within the Washington State Gambling Commission's database that the amusement game license for Gameworks in Seattle had expired on May 24, 2012. The agent

sent an e-mail to the General Manager of Gameworks, Pat Shroll, advising him that their gambling license had expired. Mr. Shroll advised they were working with Commission staff on obtaining a new license because of a change in ownership. Mr. Shroll also indicated there were some delays in obtaining documents between other employees of Gameworks Entertainment Washington, LLC.

2) On June 28, 2012, the agent went to Gameworks and verified the amusement games were operational and available for play. The agent spoke with Mr. Shroll and asked him if they have received their license. Mr. Shroll said no, he was waiting to obtain signatures that afternoon for paperwork that needed to be sent to the Washington State Gambling Commission. The agent notified Mr. Shroll that a case report concerning their operation of a gambling activity without a license would be completed. Mr. Shroll was also told that Gameworks could face administrative action against their new license. The agent told Mr. Shroll that technically Gameworks could not operate amusement games without a valid license and to let the agent know as soon as they become licensed.

3) On June 28, 2012, the agent received an e-mail from Commission staff in the Licensing Operations Division (LOD) indicating the application for Gameworks Entertainment Washington, LLC was being administratively closed due to failure to receive required documents for the application. The agent then spoke with Adam Telanoff, who identified himself as General Counsel with Gameworks Entertainment Washington, LLC. He explained that he spoke with Commission staff and was advised of what was necessary to complete their application and obtain their license. Mr. Telanoff said they are working to get all required information to Commission staff as soon as possible. The agent told Mr. Telanoff that a case report concerning operating their amusement games without a valid license would be completed.

4) On July 9, 2012, the agent sent an e-mail to Mr. Shroll asking for a status update on their license and whether they were still operating their amusement games. Mr. Shroll responded on July 10, 2012, in an e-mail and told the agent that all needed paperwork had been sent in the week prior. Mr. Shroll did not answer the agent when asked whether Gameworks were still operating amusement games.

5) On July 12, 2012, the agent spoke with Commission staff in LOD about the license and was told they are slowly receiving the required paperwork from Gameworks. Commission staff said they spoke with Kristy Nave with Gameworks Entertainment and had advised her Gameworks could not operate their gambling activities without a valid license. In addition, Commission staff told the agent that Gameworks initially thought they could send in an application, have it approved, and then has the background checks completed, etc. LOD staff said they advised Gameworks early on that they needed to submit an application and all required paperwork and documents well before their license expiration date in order to have enough time to approve the new application. Gameworks was told several times they could not operate their gambling activities if their license expires.

6) On July 12, 2012, the agent spoke with Kristy Nave, Executive Assistant with Gameworks Entertainment. Ms. Nave told the agent that they were working with Commission staff on getting all of the required paperwork in so that they can activate their license. Ms. Nave said the payment was sent to the Commission and, per Commission staff, was being held onto in anticipation of the new license. Ms. Nave said she would follow up with the appropriate parties in Gameworks and ensure everything is done in order to get their license operational. The agent advised Ms. Nave that a case report for operating a gambling activity without a license would be submitted and the agent was not authorizing Gameworks to continue to operate their amusement games without a valid license. Ms. Nave understood and she would contact Mr. Shroll to discuss the issue.

7) On July 20, 2012, the agent received notification from Commission staff in LOD that Gameworks' license had been processed and approved. Commission staff said they were mailing out the hard copy of the license to Mr. Shroll.

8) On July 24, 2012, the agent sent Mr. Shroll an e-mail requesting records detailing their gross gambling receipts for amusement games from May 25, 2012, through July 19, 2012. Two days later Mr. Shroll sent a report showing their gross gambling receipts for amusement games from May 24, 2012, through July 20, 2012. This report includes some receipts earned under their prior license for May 24, 2012. Later that same day the agent asked Mr. Shroll to send a revised report that ran from May 25, 2012, through July 20, 2012. Mr. Shroll responded that day saying he needed to run the report the next morning since he could not run the report during the operation of the games.

9) On July 30, 2012, the agent sent Mr. Shroll an e-mail asking about the status of the new report. The agent received no response. On August 1, 2012, the agent sent Mr. Shroll another e-mail asking for the status of the records. On August 2, 2012, Technical Supervisor Richard Parkinson sent the agent a revised Redemption Game Meter Report from May 25, 2012, through July 20, 2012. According to the report, during the time frame when Gameworks did not have a valid gambling license, their gambling receipts totaled \$145,441.96. The agent asked Mr. Parkinson to clarify that this was the amount of their total gross sales and he said yes. Mr. Shroll responded to the agent and confirmed that their total redemption game sales were just above \$145,000 for the time period requested.

Change of Ownership/Operating Without a Valid License

1) On August 29, 2012, an agent was assigned the license file for Gameworks to determine if a 100% ownership change in May 2011, was properly reported to Commission staff.

2) Sega Holdings USA, Inc. (SHUI) initially owned and operated Gameworks and obtained licensure to operate amusement games in April 1997. SHUI operated Gameworks and maintained their gaming license continuously until May 2010.

3) In May 2010, SHUI underwent a corporate restructuring and a new legal entity was created, Sega Gameworks USA, Inc. (SGUI). At that time SGUI became the owner/operator of Gameworks.

4) In April 2011, SGUI submitted a license renewal application for Gameworks. This renewal application was approved and a license expiration date was given of May 24, 2012.

5) The corporate ownership structure for SGUI at that time was reported to the Commission as:

- President/CEO-Cory Haynes, 0% ownership;
- CFO: John Cheung, 0% ownership;
- CEO: Tatsuyuki Miyazaki, 0% ownership;
- Stockholder: Sega Holdings USA, Inc. 100% ownership.

6) On May 4, 2012, Gameworks Entertainment Washington, LLC submitted a new application for Gameworks. During this application process, Commission staff received correspondence from A. Telanoff, attorney for Gameworks, dated June 29, 2012. In this correspondence, Mr. Telanoff stated, "In May 2011 Sega sold Gameworks to Gameworks Entertainment LLC-the current owner." However, the change of ownership was not properly reported to Commission staff, in violation of WAC 230-06-080.

7) During the 2012 licensing process, Gameworks disclosed that Gameworks Entertainment, LLC is the parent company and 100% owner of Gameworks Entertainment Washington, LLC d/b/a Gameworks.

8) The 2012 application materials dated February 17, 2012, showed the corporate ownership structure for Gameworks Entertainment, LLC as:

- New Media Technology Ventures, LLC- 39.55% ownership;
- HNB Capital, LLC- 45.35% ownership;
- Blue Ridge Investment, LLC- 12.74% ownership;
- Adam Telanoff- 2.36% ownership.

9) Additional 2012 application materials dated June 29, 2012, showed the corporate ownership structure for Gameworks Entertainment Washington, LLC as:

- LLC Manager- Joseph Varreto, 0% ownership;
- LLC Member- Gameworks Entertainment, LLC, 100% ownership.

10) From May 2011 to May 24, 2012, Gameworks Entertainment, LLC continued to operate Gameworks under the license obtained held by Sega Gameworks USA, Inc.

VIOLATIONS:

1) RCW 9.46.160 Operating Amusement Games Without a License

Provides that any person who conducts any activity for which a license is required by this chapter, or by rule of the Commission, without the required license issued by the Commission shall be guilty of a class B felony. If any corporation conducts any activity for which a license is required by this chapter, or by rule of the Commission, without the required license issued by the commission, it may be punished by forfeiture of its corporate charter, in addition to the other penalties set forth in this section.

2) RCW 9.46.075 Denying, suspending, or revoking an application, license or permit

The commission may deny an application, or suspend or revoke any license or permit issued by it, for any reason or reasons, it deems to be in the public interest. These reasons shall include, but not be limited to, cases wherein the applicant or licensee, or any person with any interest therein: (The following subsection applies.)

(1) Has violated, failed or refused to comply with the provisions, requirements, conditions, limitations or duties imposed by chapter 9.46 RCW and any amendments thereto, or any rules adopted by the commission pursuant thereto, or when a violation of any provision of chapter 9.46 RCW, or any commission rule, has occurred upon any premises occupied or operated by any such person or over which he or she has substantial control.

(7) Makes a misrepresentation of, or fails to disclose, a material fact to the commission;

(10) Has pursued or is pursuing economic gain in an occupational manner or context which is in violation of the criminal or civil public policy of this state if such pursuit creates probable cause to believe that the participation of such person in gambling or related activities would be inimical to the proper operation of an authorized gambling or related activity in this state. For the purposes of this section, occupational manner or context shall be defined as the systematic planning, administration, management or execution of an activity for financial gain;

3) WAC 230-03-085 Denying, suspending, or revoking an application, license or permit

We may deny, suspend, or revoke any application, license or permit, when the applicant, licensee, or anyone holding a substantial interest in the applicant's or licensee's business or organization:

(The following subsections apply.)

(1) Commits any act that constitutes grounds for denying, suspending, or revoking licenses or permits under RCW 9.46.075.

(3) Has demonstrated willful disregard for complying with ordinances, statutes, administrative rules, or court orders, whether at the local, state, or federal level.

~~Based on Gameworks' willful~~ willfully disregarded Commission rules by continuing to operate without a license in violation of RCW 9.46.160, despite being told that they could not do so until they received their new license. Gameworks also, ~~and pursuing~~ pursued economic gain by operating without a license, and grounds exist to suspend or revoke Gameworks' license under RCW 9.46.075(1), (7), (10), and WAC 230-03-085(1) and (3).

4) WAC 230-06-080 Report changes to application information and submit update documents and information

(The following subsections apply.)

(1) Licensees must notify us in writing if any information filed with the application changes in any way within thirty days of the change.

(2) Licensees must submit to us any new or updated documents and information, including the following:

(a) Articles of incorporation or bylaws, or any other documents which set out the organizational structure and purposes; and

(b) All oral or written contracts and agreements which relate to gambling activities or alter the organizational structure of the licensee's organization or business activities in Washington.

5) WAC 230-06-108 Ownership changes — prohibited.

All gambling licenses held by a business will become void when the following changes in ownership occur and a new license must be obtained before operating any gambling activities: (The following subsections apply.)

(1) A person or business becomes the owner of more than fifty percent of corporate stock or limited liability membership shares/units, when the person or business did not have at least the following substantial interest in the business immediately before the transaction:

(a) Ten or more percent ownership in a privately held corporation or limited liability company (LLC); or

(b) Five or more percent ownership in a publicly traded corporation or LLC; or

(2) The business is sold; or

(3) A sole proprietorship brings in a new person and forms a partnership, corporation or LLC; or

(4) A partnership adds another partner or changes partners; or

(5) A change in a person's ownership, together with ownership of any members of his or her immediate family, who are under the age of eighteen years of age, results in the person having more than fifty percent interest in the business when the person did not have at least the following substantial interest in the business:

(a) Ten or more percent ownership in a privately held corporation or LLC; or

(b) Five or more percent ownership in a publicly traded corporation or LLC.

Gameworks failed to timely notify Commission staff of its 100% ownership change, in violation of WAC 230-06-080. Once the change of ownership occurred in May 2011, Gameworks' license was invalid. However, Gameworks continued to conduct gambling activities, in violation of WAC 230-06-108. Therefore, grounds exist to suspend or revoke Gameworks' license under RCW 9.46.075(1), (7), (10), and WAC 230-03-085(1) and (3).

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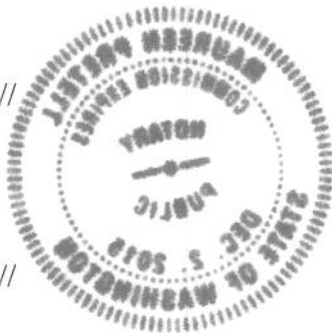
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III.

Jurisdiction of this proceeding is based on 9.46 RCW, Gambling, chapter 34.05 RCW, the Administrative Procedure Act, and WAC Title 230.

The licensee will have the opportunity to have a hearing on the alleged violations.

In order to have a hearing or discuss settlement options, the enclosed request for hearing must be completed and returned to the Gambling Commission **within 23 days** from the date of the mailing of this notice.

Based on RCW 34.05.440, failure to return a request for hearing will result in the entry of a default order REVOKING your license.

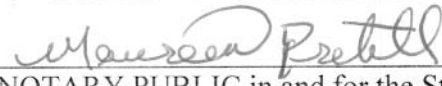
STATE OF WASHINGTON)
) ss.
COUNTY OF THURSTON)

Rick Day, being duly sworn on oath, says: That he has read this *Amended* Notice of Administrative Charges and Opportunity for An Adjudicative Proceeding, knows the contents of it, believes it to be true, that he is the Director of the Washington State Gambling Commission, and in that capacity has executed said Notice.



RICK DAY, DIRECTOR

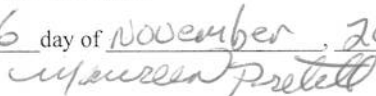
SUBSCRIBED AND SWORN TO before me
this 5 day of November, 2012.



NOTARY PUBLIC in and for the State of
Washington residing at Thurston County
My commission expires on December 2, 2015

STATE OF WASHINGTON)
)
COUNTY OF THURSTON)

I certify I have this day served a copy of the document upon all parties of record in the proceeding by mailing a copy, property addressed with postage prepaid, by regular and certified mail to each party to the proceeding or his or her attorney or authorized agent.

Dated at Olympia, Washington this 6 day of November, 2012




Gameworks

AMENDED NOTICE OF ADMINISTRATIVE CHARGES
AND OPPORTUNITY FOR AN ADJUDICATIVE PROCEEDING
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